The Better IR Newsletter

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Global Investor Portfolio Turnover: Regional Differences and Broader Trends

Every investment decision-maker has a slightly different investment time horizon, whether an investor looking for a rapid short-term gain, an arbitrage strategy designed to only last a few days, or a longer-term investment with a five-year time horizon.

The most important thing to understand about the investment adviser sitting across the table from you is that the beneficial owner of the assets being managed by the investment advisor is a driving determinant of the strategy, and therefore the typical holding period for the position in your company. A pension fund portfolio may be looking for long-term gains to support a younger demographic, a trust may be seeking higher income investments with minimal expenses, or an endowment portfolio may be set up to make investments over the next hundred years and maintain its required payout ratio over that time.

The time horizon constraint from these end beneficial owners, as well as the overall performance of the market, are two major contributors, in a macro sense, to the decision-making process to buy or sell any security at any given time. However, when IR scrutinizes an investor to determine its potential holding period, it's important to put the investor's portfolio into an appropriate context. What kind of clients does this investor serve? What time horizons do these clients have? And what trend has the investor shown, relative to the region it resides in and its investor type?

Ipreo analyzed the set of active institutional investors over time using its standard Turnover calculation, which is expressed as a percentage of the portfolio that would be expected to turn over in a calendar year. All groupings are weighted based on reported equity assets. Passive investors were excluded from the analysis as they tend not to be valid from an IR benchmarking standpoint; however, it is interesting to note that passive investors, particularly index managers such as Vanguard Group, have seen some of the largest net capital inflows through the last two years, alongside the rapid expansion of the ETF market and the shift to passive management seen around the financial crisis.

Regional Distribution of Turnover

Figure 1 – Weighted Average Turnover (%) of Active Institutional Investors by Investor Region – Dec '08 – Mar '11

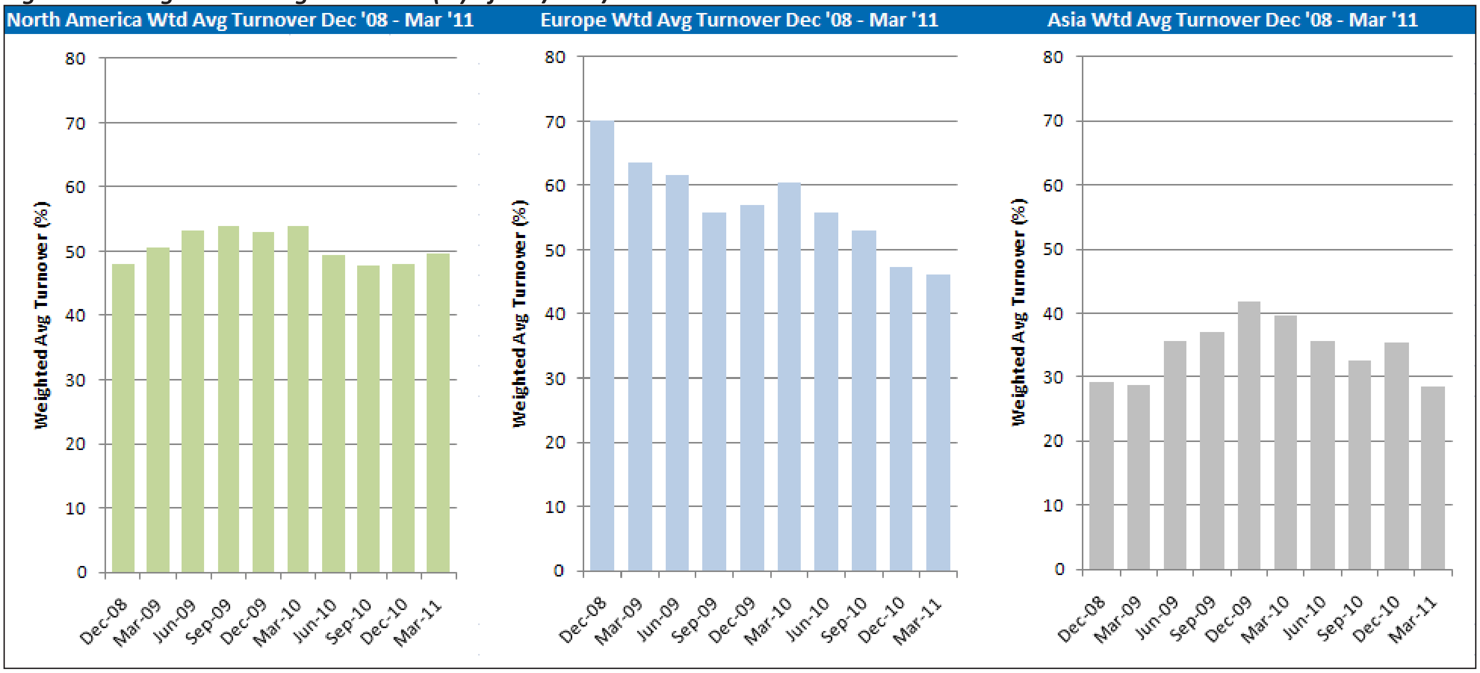
Investor Region	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
Africa	36.8	41.4	41.6	43.1	39.3	39.8	35.6	44.1	43.8	39.7
Asia	29.3	28.7	35.7	37.1	41.8	39.6	35.6	32.6	35.4	28.7
C.America	25.7	24.4	25.5	25.2	25.2	26.8	21.9	21.2	20.1	22.0
Europe	70.2	63.4	61.6	55.8	57.0	60.4	55.8	52.9	47.3	46.0
North America	48.1	50.5	53.2	54.0	53.0	53.8	49.3	47.8	48.0	49.7
Pacific	26.5	28.0	27.6	29.9	30.5	31.6	29.4	27.3	27.3	28.5
S. America	13.8	24.7	25.9	25.2	23.6	25.1	36.7	33.0	37.1	43.5

Source: Ipreo Research

Looking at the universe of investors by region of investor, as expected, North American investors (with the highest concentration of fully-disclosed portfolios from hedge fund managers and other short-term investors) show the highest overall turnover rates currently. However, the most striking display involves the gradual decrease in turnover from active European investors, falling steadily from over 60% turnover during the midst of the financial crisis to just 46% today. Overall turnover figures have decreased, but the decline in churn in European portfolios is very significant, especially when compared with North American investors.

Though a much smaller sample size, Brazilian investors have shown gradually increasing turnover based on inflows from strong economic performance as well as loosening of regulation and taxation regimes.

Figure 2 – Weighted Average Turnover (%) of NA / Eur / Asia Institutional Investors – Dec '08 – Mar '11



Source: Ipreo Research

Asian investors have always tended to have lower turnover than either North American or European investors; Japan-based investors in particular tend to be more tightly regulated and more long-term focused than their North American counterparts.

Turnover by Investor Type

Looking at active investors by investor type offers a surface-level benchmark for any particular investor's turnover rating; however, when viewed at the beneficial owner level it can give an idea of the typical turnover rating that each type of client portfolio of an investment manager will have. For example, Neuberger Berman Management (average turnover of 41%) operates about half of its total equity assets on behalf of mutual fund clients, with the remaining portfolios split among pension funds, trusts, endowments/foundations; typically the mutual fund and endowment portion of the portfolio will have higher turnover than the trust and pension fund portfolios. Therefore, if Neuberger holds your company largely through mutual fund positions, it's likely that the expected holding period for the portfolio will be shorter than the firm average. On the other hand, if Neuberger holds your company strictly on behalf of pension fund portfolios, expect its holding period to be longer than the firm average.

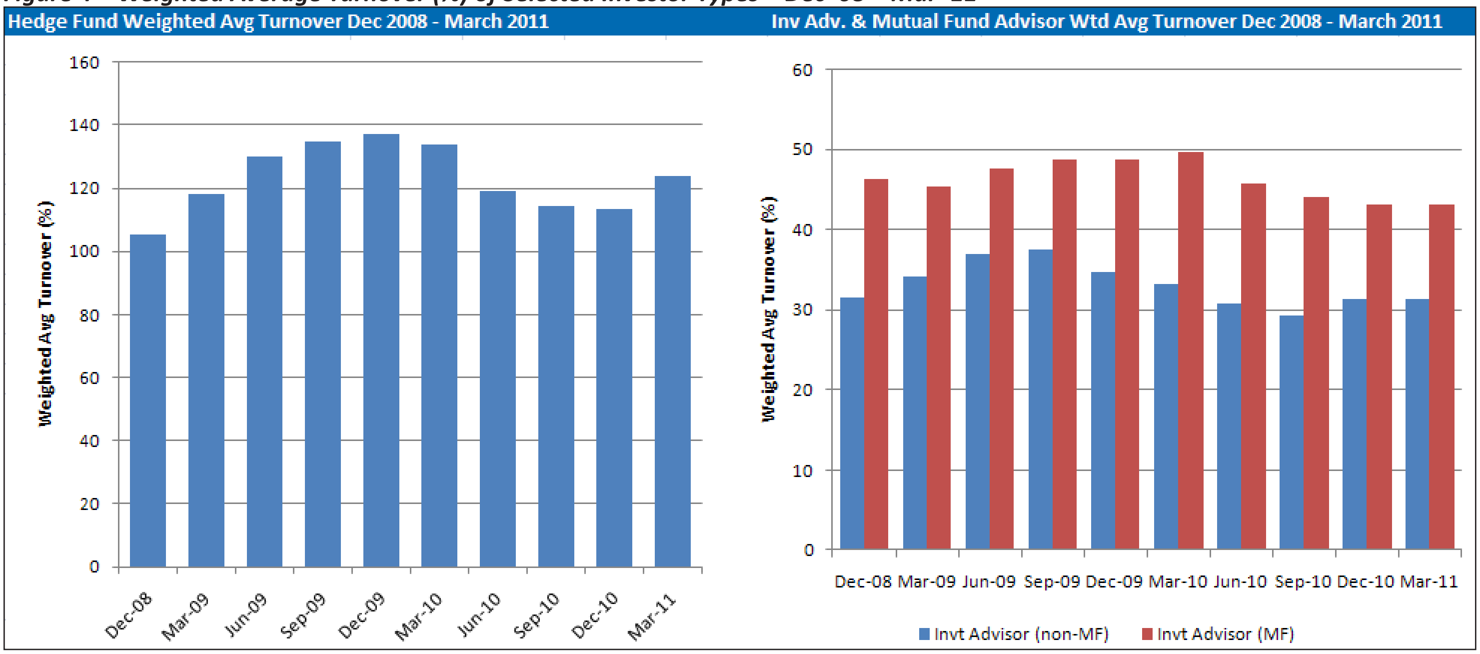
Figure 3 – Weighted Average Turnover (%) of Active Institutional Investors by Investor Type – Dec '08 – Mar '11

Investor Type	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
Bank	43.7	51.4	82.2	83.2	60.4	54.3	48.0	44.3	49.1	48.8
Endowment / Foundation	45.1	52.1	57.5	56.0	51.8	52.0	45.8	42.3	39.6	56.5
Hedge Fund	105.3	118.1	129.8	134.7	137.1	134.0	118.9	114.5	113.4	123.8
Insurance	15.2	16.2	18.9	19.0	17.6	17.2	14.6	13.0	12.7	11.0
Invt Advisor (MF)	46.2	45.3	47.7	48.6	48.8	49.7	45.6	44.1	43.0	43.0
Invt Advisor (non-MF)	31.5	34.2	36.9	37.4	34.8	33.2	30.8	29.3	31.4	31.4
Pension Fund - Corp	26.0	26.3	25.9	27.8	26.8	28.2	25.4	23.0	23.1	22.3
Pension Fund - Govt	35.3	37.5	37.4	35.3	35.8	36.9	37.8	36.9	30.9	29.5
Sovereign Wealth Fund	15.4	16.1	11.2	7.9	21.3	18.7	18.5	17.6	7.0	6.2

Source: Ipreo Research

Hedge funds' average turnover spiked higher in 1Q11 after four straight quarters of declines. With shorter-term mandates, hedge fund turnover tends to track fairly closely with overall market volatility – hedge fund managers are much more likely to book short-term profits or losses on any long equity positions.

Figure 4 – Weighted Average Turnover (%) of Selected Investor Types – Dec '08 – Mar '11



Source: Ipreo Research

Region and Type Benchmarking

Figure 5 – Weighted Average Turnover (%) of Selected Region/Type Combinations – Dec '08 – Mar '11

Investor Region	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
Hedge Funds										
Asia Hedge Fund	25.9	32.0	32.1	34.4	39.7	35.8	26.4	34.5	30.8	31.1
Europe Hedge Fund	65.1	72.7	89.5	102.0	101.6	101.8	88.5	88.7	90.9	94.1
North America Hedge Fund	110.7	123.8	136.0	140.6	143.3	139.7	124.0	119.3	117.9	128.5
Investment Advisor (non-MF)										
Asia Inv Adv (non-MF)	35.0	42.4	50.1	46.1	72.7	29.0	26.8	15.5	21.9	16.3
Europe Invt Adv (non-MF)	12.6	11.4	13.5	16.5	17.8	20.8	18.4	14.3	13.8	12.8
North America Inv Adv (non-MF)	34.7	38.1	40.6	41.0	34.9	35.4	32.7	32.8	34.7	35.3
Mutual Fund Manager										
Asia Mutual Fund	37.8	37.3	48.4	49.9	54.3	54.0	45.4	45.9	43.2	41.2
Europe Mutual Fund	53.3	46.9	47.6	49.6	50.5	52.8	48.5	46.2	42.9	41.0
North America Mutual Fund	45.1	46.2	48.2	48.7	47.9	48.6	45.0	43.4	43.6	44.5

Source: Ipreo Research

It also makes sense to view investors in an even more granular context; for example, hedge funds outside of North America tend to operate under more restrictions (such as leverage caps), while North American hedge funds are more free to pursue different investment strategies beyond the "plain vanilla."

When prioritizing your communication with investors, make sure that you're viewing the average holding period of each investor in the right context. A US-based hedge fund manager with a 75% turnover rating, for example, has a very long-term focus when compared with other US hedge fund managers. In addition, when speaking to investors, you'll often gain interesting intelligence about the types of portfolios that the investor currently holds your stock in; putting this information in the right context can give you a good idea of the real expected holding period the investor has for your investment, not just the headline figure seen across its entire equity portfolio. This can be very important information as you color your future communications with the investor.

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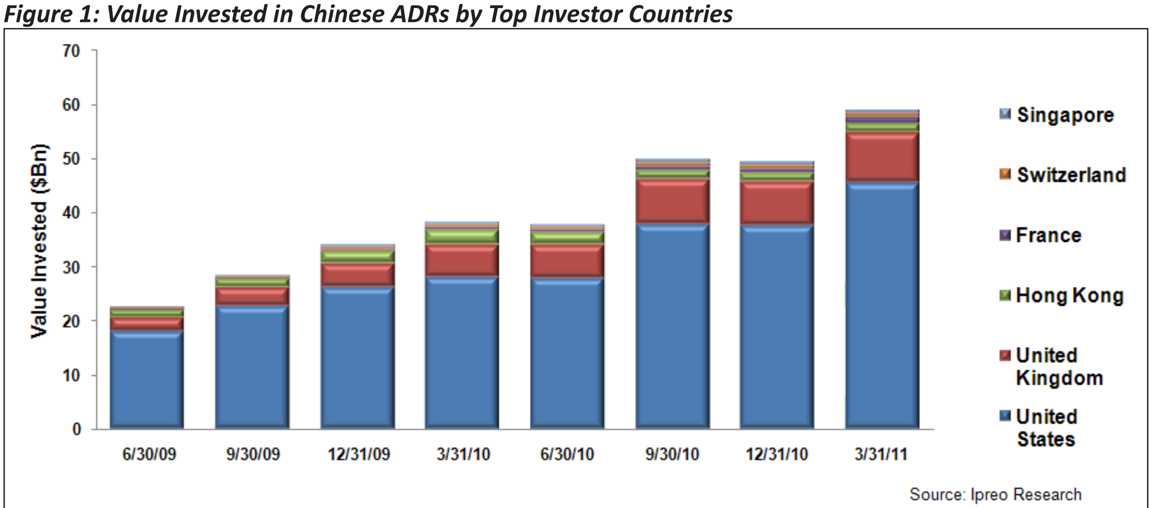
Chinese Issuers in the US: Playing Defense

Sentiment Shifts and Institutional Activity

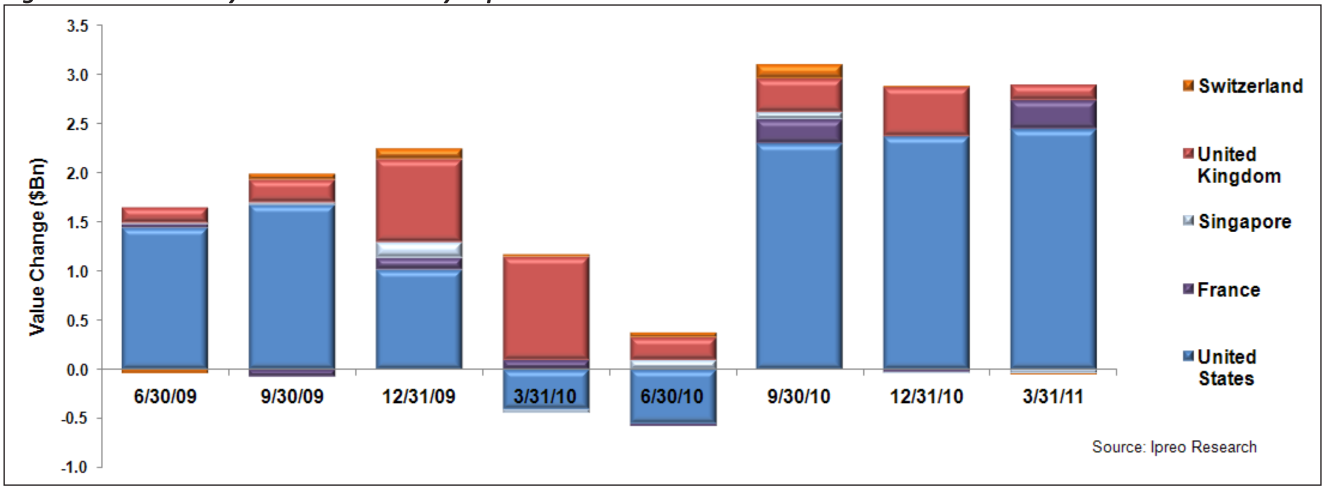
As the U.S. economy recovers at what seems to be a continuously slowing pace, global investors remain cautious towards U.S. issuers. While general macro-level sentiment towards the U.S. market is more lukewarm, many money managers have been looking overseas to get an early foothold in the growing emerging markets. Over the past two years, Chinese issuers have been a hot focal point for many global investors, as the "Middle Country" now ranks as the second largest economy in the world and continues to show strong macro trends. Since 2009, 55 Chinese domiciled companies have IPO'ed in the United States, as opposed to just 61 from 2002 to 2009, a 90% increase in only two years. Figure 1 below shows U.S. investors significantly increasing their exposure to Chinese ADRs, Chinese companies that trade in the U.S., from $18.1Bn in the middle of 2009 to over $45.3Bn as of the latest filings in March 2011.

Figure 1: Value Invested in Chinese ADRs by Top Investor Countries



However, the overall constant inflows of investment into Chinese ADRs (as seen in Figure 2) has left many Chinese ADR IROs frustrated, as they cite recent struggles in price performance, particularly in early 2011. Ipreo conducted an analysis to address this issue from several standpoints, mainly shareholder concentration, security liquidity, and short interest. This analysis can help IROs understand where they are positioned compared to other Chinese ADRs and relative to the broader US market, and more importantly how they can address these issues in the future.

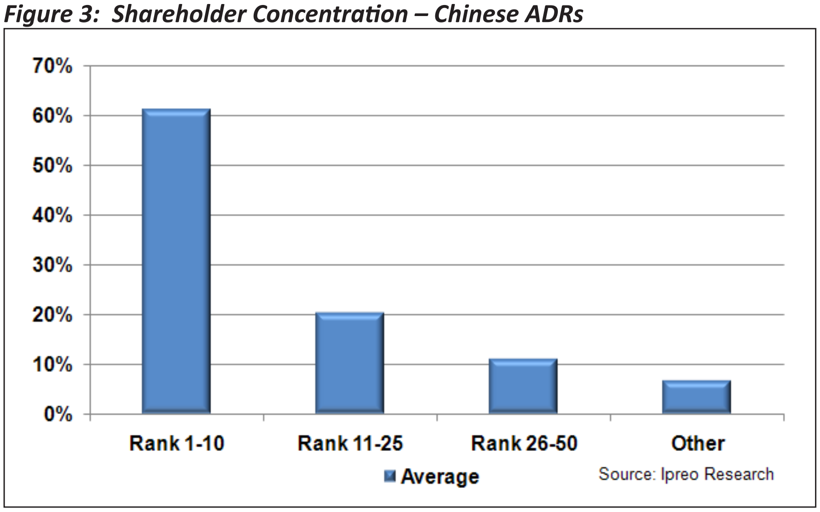
Figure 2: Net Activity in Chinese ADRs by Top Investor Countries



Shareholder Base Analysis

Chinese issuers, or truly any international issuers that have raised capital in the US or other international markets, should first be aware of the underlying differences in their shareholder bases relative to domestic issuers, as well as the impact that the differing shareholder bases may have.

Figure 3: Shareholder Concentration – Chinese ADRs

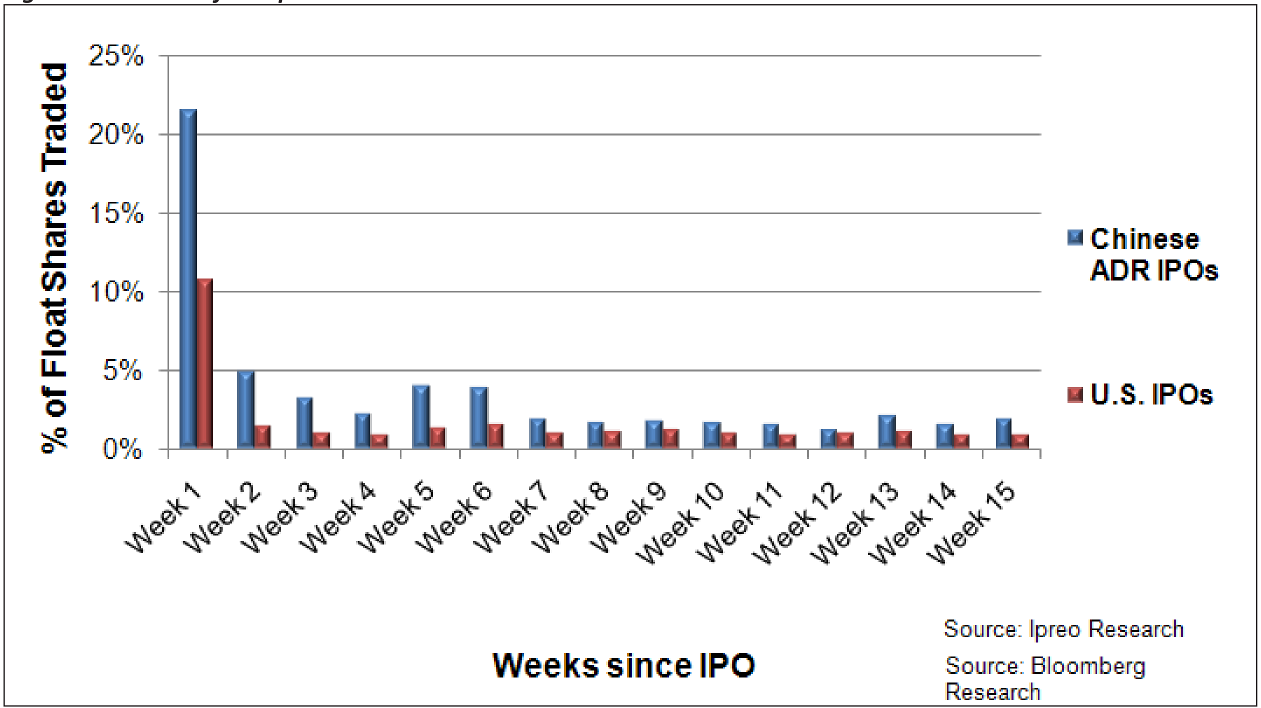


As seen above, an average of over 60% of the companies' institutionally held shares are held within the top 10 shareholders, with over 90% held by the top 50 investors (compared with US averages of 64% held by the top 50 investors for the S&P 500 and 72% held by the top 50 investors for the S&P 400). Smaller placements, as well as the more recent timeframe of these placements and the very nature of the companies involved (in many cases not available for investment in portfolios seeking US-domiciled issuers) leads to a more concentrated shareholder base than the market as a whole. This type of concentration puts share price at a greater risk due to the buying and selling activity of one or a few investors. Although Chinese issuers by their nature will have less-diverse shareholder bases than US issuers, it also stands to reason that issuers with less-diverse shareholder bases see greater incremental gains from diversifying their shareholder bases than those with a high level of diversity already; for IRO's, this really means a greater return to time spent on investor outreach.

Liquidity Analysis

Chinese issuers have also complained of falling liquidity in their securities subsequent to IPO's and placements. New issuers will almost always see the initial "pops" in liquidity after an IPO, and then a gradual fall in trading volumes to a more "normal" level. In Figures 4 and 5, Chinese and U.S. IPOs conducted in the last two years were analyzed, with liquidity in each issue measured as a percent of the company's float shares traded.

Figure 4: Percent of Companies Float Shares Traded - Chinese ADR vs. U.S. IPOs



After initial heavy trading volume in the first week of the IPOs, both U.S. and Chinese companies saw trading retreat in the following weeks at similar rates, albeit with a difference of percent float traded. Overall, while it is true liquidity has fallen off, Chinese ADRs trade quite comparably to U.S. companies in the first 15 weeks, and often trade a higher percentage of their float shares than U.S. companies. Low liquidity may be hurting some Chinese or foreign issuers, but in total this issue may be less of a problem than other factors that contribute to volatility.

Current Events

While non-US issuers in US-traded securities will always approach the institutional market from a slightly different standpoint than US issuers, the shareholder base composition and liquidity of an issuer will only contribute to volatility if there is a noticeable lack of confidence either in the issuer or the issuer's market, and many of the news headlines since January 2011 have not helped to maintain confidence in Chinese issuers. Issuers such as Longtop Financial, China Forestry, Sino-Forest, and China Agritech have suffered well-publicized collapses as questions arise about accounting standards and billing practices, calling into question the integrity of other Chinese issuers as well, and leading to increases in overall short sales across the space. In Figure 5 below, Chinese ADRs' shares shorted are totaled since the beginning of 2011. As expected, total short interest has increased roughly by 100mm since the end of February alone.

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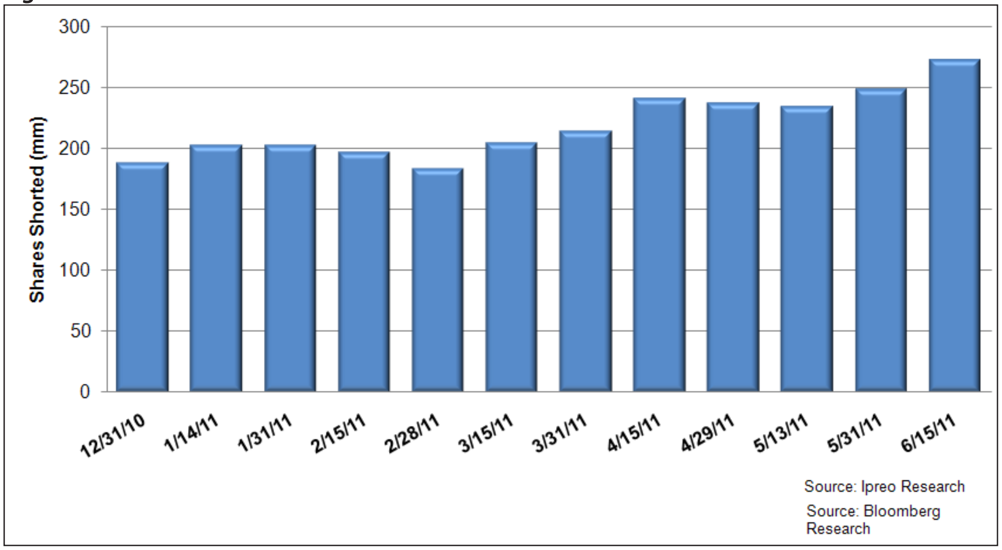
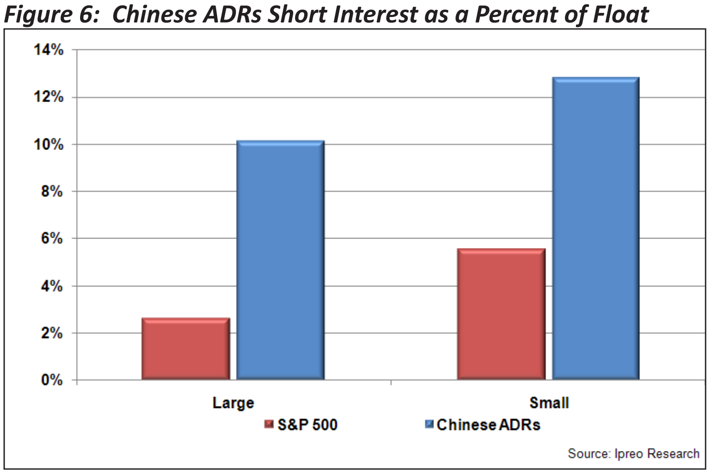
Figure 5: Chinese ADRs Total Shares Short YTD



Although Chinese ADRs have experienced increased short selling over the past few months, there is a discrepancy between larger companies' and smaller companies' shares shorted. In Figure 6 below, Chinese ADRs' current short interest is measured as a percentage of companies float. Based on the data below, large Chinese ADRs (>$10Bn Market Cap) currently average roughly 2.5% less short interest than smaller Chinese ADRs (<$10Bn Market Cap) do. This data also shows Chinese ADRs do face heavier short interest when compared to U.S. issuers of similar size. However, the trend of less short interest as a percent of float shares for larger companies compared to smaller companies remains constant.

Figure 6: Chinese ADRs Short Interest as a Percent of Float



While this does not suggest large companies have not also experienced institutional selling as of late, the data does suggest more confidence in the larger companies and regards them as more robust. Unfortunately, as a result of recent news, many smaller companies may be experiencing a chain reaction effect in that negative news from a few companies can cause doubt for others, much of which can be exacerbated by a concentrated shareholder base or less liquid security.

What Can an IRO Do?

Times like these are when the true value of an IRO can shine through. In addition to acting on the aforementioned topics, the best strategy an IRO can use is communication, especially with one's largest holders.

In the case of many Chinese ADRs, the largest holders account for well over half of the company's shares and any significant movement from one of them can create a chain reaction event with the other holders. However, viewed from another standpoint, a concentrated shareholder base is a shareholder base that is easier to stay in close contact with for an investor relations team.

In addition, in many cases the discounted valuations seen from Chinese issuers may be seen as ideal opportunities for IRO's to take their first steps into selling the story to value investors. With earnings and revenue multiples of Chinese issuers have often double or triple those of US or other Asian counterparts over the last two years, very few investors concerned about finding attractively-valued companies have even opened the books of Chinese issuers. Depressed multiples may also mean an opportunity to approach an entirely new set of investors that Chinese issuers may have not seen since the IPO roadshow. And, don't forget that high short interest also increases the potential for a short squeeze, with good news forcing short sellers to close their positions and boost prices quickly.

While IROs cannot control what effect a few bad peers have on the market, they can control how to manage communications with shareholders, and as always, knowing the unique context of being a foreign issuer can help IRO's both manage expectations from the C-level and conduct effective investor outreach.

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Exposure to Greece: The Turmoil and Its Fallout

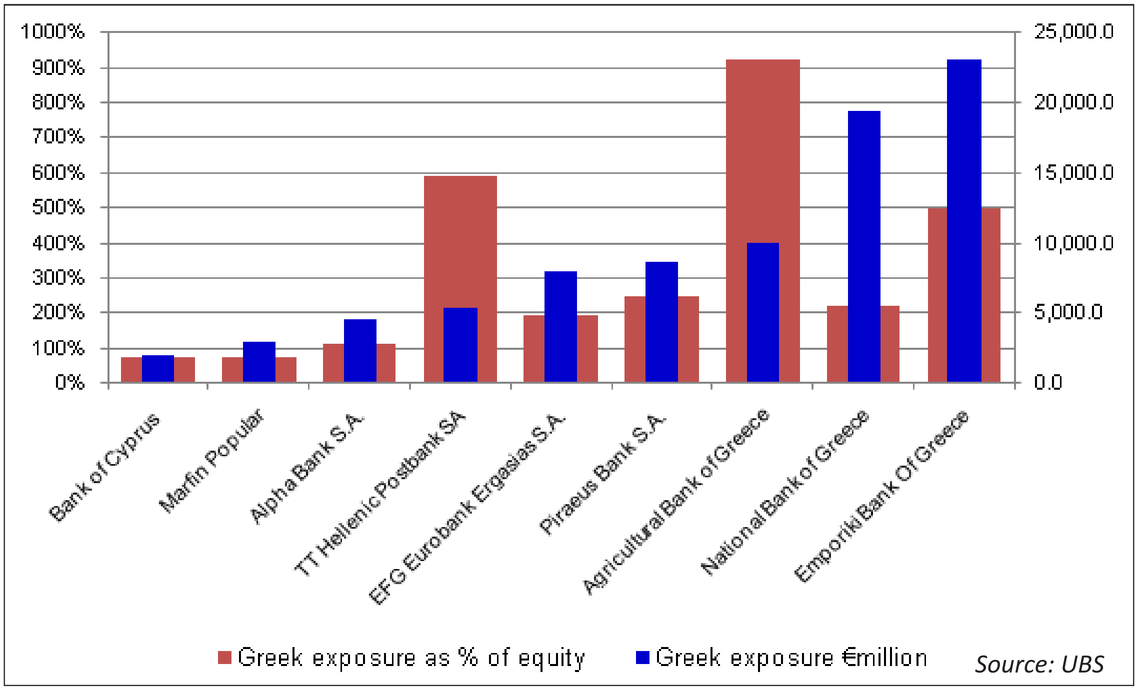
In the past week the issue of Greek debt has come to the forefront and for the first time a solution involving shared government and private investor liability has been put forward as a viable option.

Greek exposure clearly has an impact - witness Moody's downgrade of three of the largest French banks this week on the grounds their holdings of Greek public and private debt, "and the potential for inconsistency between the impact of a possible Greek default or restructuring and current rating levels," the ratings company said on 15th June, followed by similar downgrades being prepared for Italian banks (see below).

The real question looming is how big is that impact? Greece should be small beer – and compared to Spain, for example, it is. The Netherlands is top of the list in terms of GDP: bank exposure to peripherals' debt represents 13% of GDP and of that 10% is exposure to Spain. UK comes in at #2 on the list with 12% GDP exposure – 6% of which is to Irish banks. France is the only country where Greek debt specifically makes a large contribution. Spain has 8% GDP exposure – 7% of which is to Portuguese banks. The elephant in the room for most of Europe is Spain not Greece. That raises a very direct question – how different are the two cases? Will Spain pick itself up and restore profitability in the next three years to a level that increasingly looks impossible for Greece to achieve because, as Axel Weber, ex-Head of the Bundesbank put it on June 25th 2011, "the Greek problem is not a short-term problem…was not caused by the common currency, is a deep-rooted fiscal & structural problem that probably needs a 30-year horizon to solve rather than a 3 to 5 year solution"?

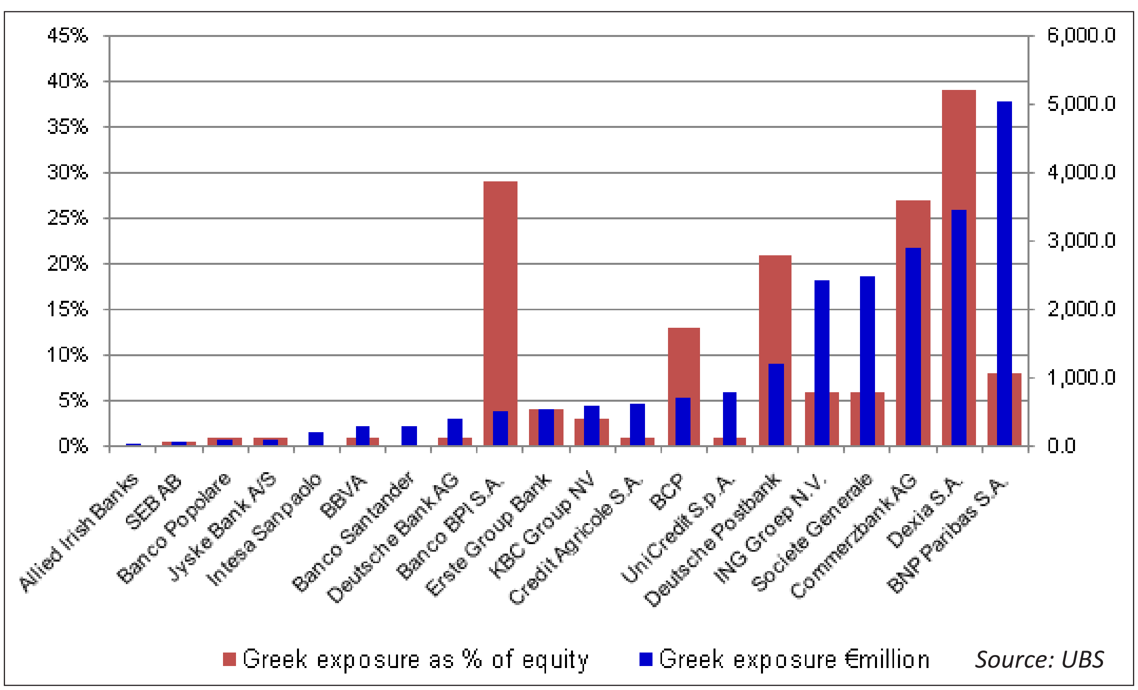
Greece's current debt is stated as €340 billion against a GDP of €310 billion. The pressing issue is that nearly one third of that debt, €100 billion, is due in 2014. Of the total €340 billion, 27% is held by commercial banks, 43% by other investors (asset managers, sovereign wealth funds, foreign central banks).

Which banks are most exposed to Greece? UBS published the following data earlier in June 2011, expressed in € billions exposure and exposure as a percentage of market capitalisation. Greek exposure to Greece is not in question:



(Worth bearing in mind here is that Credit Agricole is doubly exposed both directly via €630 million of exposure and indirectly via its 91% ownership of Emporiki Bank (which has exposure of €23 billion).

Aside from Greece, French banks are more exposed. Credit Agricole's direct and indirect exposure (via Emporiki Bank) and SocGen's via Geninki Bank, along with BNP's large direct holdings of Greek government debt mean that French banks rank as among the largest holders of Greek debt. That leaves out the source of nagging concern, the invisibility of credit default swaps. As the FT commented a year ago, "*any impact can be increased or reduced depending on which side of the CDS trade some banks have chosen – but here the visibility is non-existent".* (CDS rates for 2-year Greek debt now stand at 1,603 bps; comparably when three of Iceland's banks actually defaulted in October 2008, debt stood at 1,473 bps)



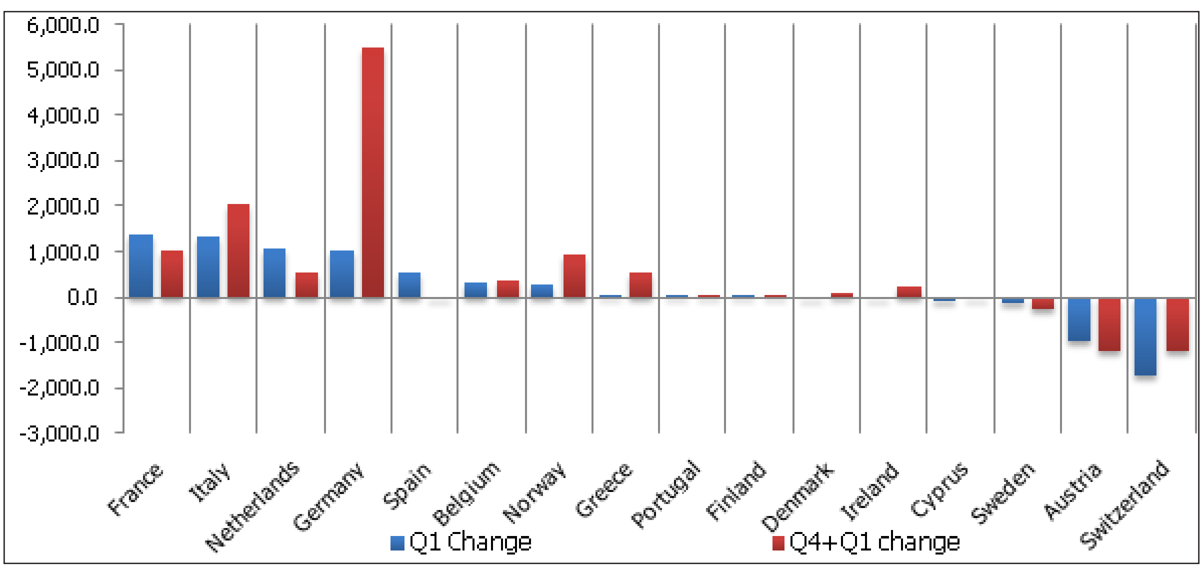
Two Portuguese banks, BPI and BCP, have dangerously high exposure, as do two German banks, Postbank and Commerzbank (21% and 27% of equity respectively), with Dexia the most exposed of all at 39%. But BNP and SocGen are seriously exposed too at 8% and 6% respectively.

Furthermore, Italy's problems became a noticeable topic last week. Italian banks Intesa SanPaolo and IMI had their debt ratings put subject to review for a downgrade by Moody's as of 21st June. UniCredit only has its deposits subject to downgrade review. Moody's threat then combined with fears about contagion from Greece and political instability in Italy to form a potent cocktail. By Friday 24th June, the market had seen the impact : UniCredit, Intesa SanPaolo, Monte dei Paschi and UBI Banca had seen their shares suspended when they fell more than 10%, and the Milan index fell by 4.3% overall. UBI Banca's share price fell below the subscription price for its rights issue. Intesa SanPaolo has completed a €5billion rights issue (taking its core tier one ratio over 10%), Monte dei Paschi's €2 billion issue is due 8th July as Italian banks seek to raise capital ahead of stress tests. But Italy has its defenders who a) cite conservative lending, a strong retail deposit base and the absence of a housing bubble, and b) "the value right now of Italian banks is a 1-in-30 year opportunity to buy & make money over the next 3 years" (Davide Serra, co-founder of Algebris Investments, hedge fund managing $1.5 billion in equities).

In the wake of these events, Spain's banks will have to follow suit. Ashok Shah, chief investment officer at London & Capital, put it simply: "Banks that are focused on southern European countries will have great difficulty in raising any finance, and they may have to be bailed out by the state. The credit ratings of many of the banks are based on official support. Without state help, who knows what will happen."

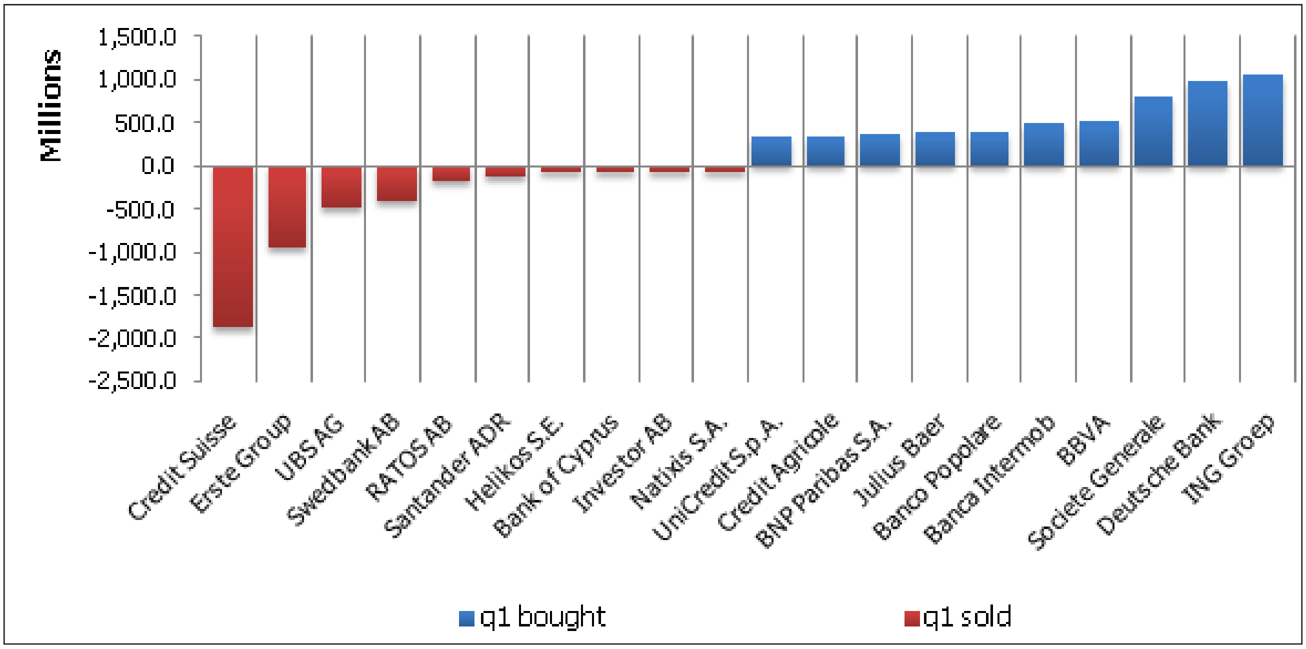
In terms of ownership trends, the good news was that European financials as a whole saw net investment of over $5 billion against net divestment on over $2 billion the previous quarter. A great deal of that change is directly related to the banking sector (net investment Q1 $1.3 billion, net divestment Q4 $3.3 billion). In Q4 net investment was basically local (WEU investors putting in $6 billion, US investors pulling out the same amount, and UK investors pulling out $2 billion). In Q1 WEU investors were agnostic (no net change, though Natixis sold a net $2.3 billion) while US and UK investors came increased positions.

There is no direct correlation between the problems faced by the Eurozone area – specifically the peripherals – and what is visible in terms of stock ownership in European banks. French banks, now subject to ratings review, were well bought along with German and Dutch banks in Q1 2011. The supposedly vulnerable Italian and Spanish banks were also in positive territory, and the countries' banks most sold – Sweden, Austria and Switzerland – are not notoriously "peripheral" in the current sense of the word.



Source: Ipreo

At stock level, Q4 BBVA was bought, Santander sold (but sales of Santander were greatly reduced, in Q4 it was the most sold European bank), and Deutsche Bank continued to see heavy net investment as of Q4 2010. The biggest news was massive sells of Credit Suisse, UBS and Erste Bank.



Source: Ipreo

In sum, where do we go from here? Two parallel solutions came out at the weekend, both of which address what European leaders have danced around to date. The first consideration is the rate at which private investors will have to participate. On offer, as per Axel Weber, are debt guarantees to incentivise private investors to roll over, not exit, Greek government debt. Second, the French banks' proposal for half the proceeds from maturing Greek bonds to be reinvested in new 30-year Greek bonds with another 20% going into "high-quality" (French government?) bonds as insurance to guarantee payment after 30 years. German investors have responded that a 30-year replacement is far too long, where it should be 10 or 15 years instead. Either way, that leaves a second solution wide open: how to ensure that Greece is not coming back each year for a larger sum as its economy shrinks, tax collection remains patchy and growth is hobbled by lack of currency flexibility (Iceland saw its currency slide by 80% as part of its "haircut")? As of 27th June the French have been talking about a 40% loss for private owners of Greek government debt via the European Financial Stability Facility while Citi estimates that Irish debt owners will have to see a 45% cut. On the other hand, Citi reckons that Spain could have sustainable debt ratios in 2014 where Ireland and Greece – and one assumes Portugal – have no chance.

In the short term, rights issues will be top-of-mind. As one financial institution's specialist said of the imminent deals for Italian banks: "You can have two world views. Either we work through some silly discounts, readjust, and get these deals done…or we've all had it."

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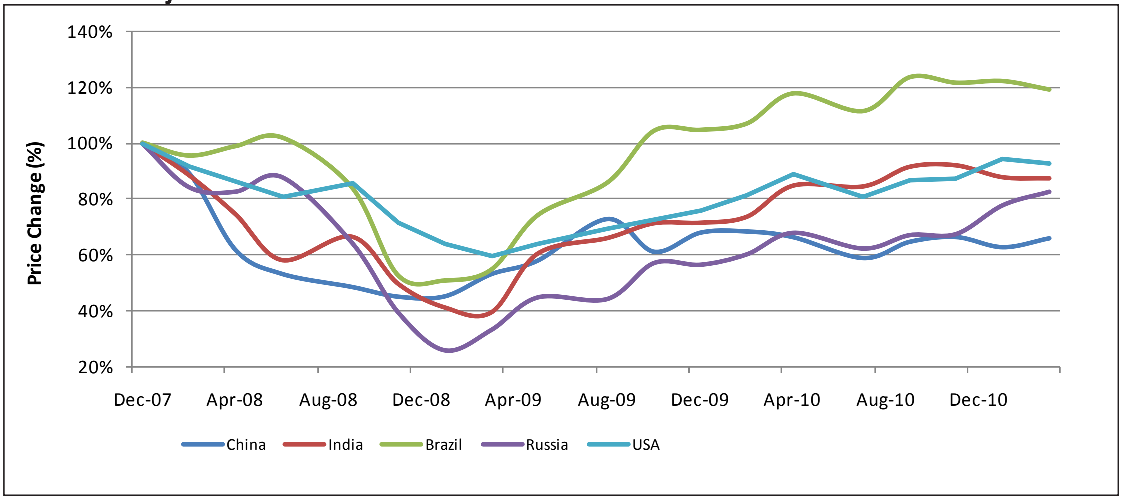
A Slowdown in BRIC Investments

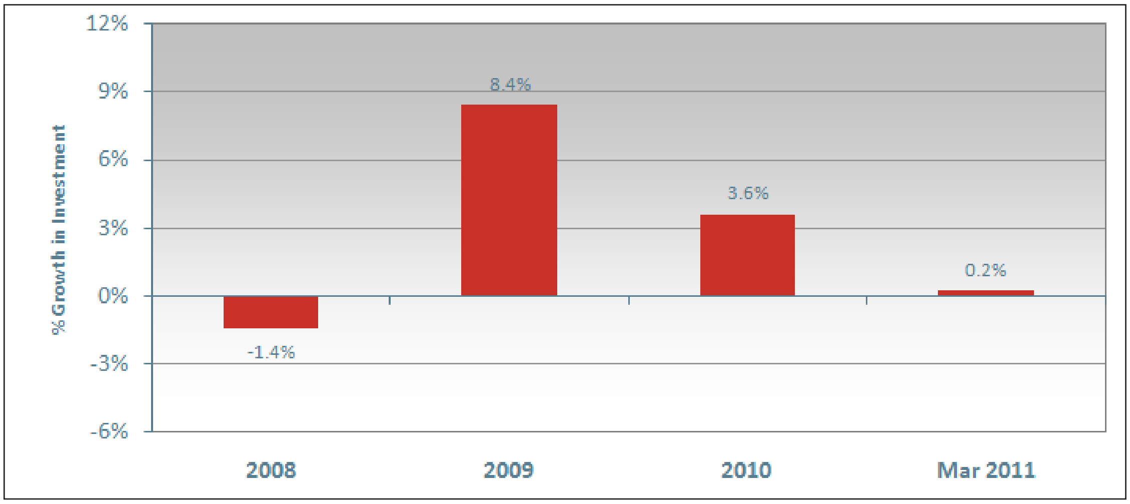
In a world awash with liquidity, emerging markets have remained attractive destinations for capital for several years now. The series of crises in the US and Europe, starting with the mortgage contagion through the continuing sovereign debt problems in the euro zone, have only acted to make emerging markets more attractive. Recently, however, we heard talk of a decrease in the rate of investment and in some cases money even being pulled out of certain emerging markets. We set about examining the numbers for the important emerging markets, BRIC countries, to see if this was indeed the case, reasons, what sectors and countries were affected and, most importantly, if the trend is likely to continue.

Growth in Major Stock Indices in BRIC Countries vs. USA

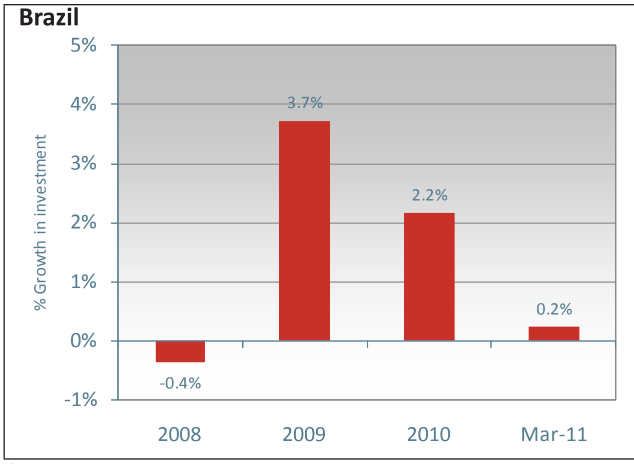


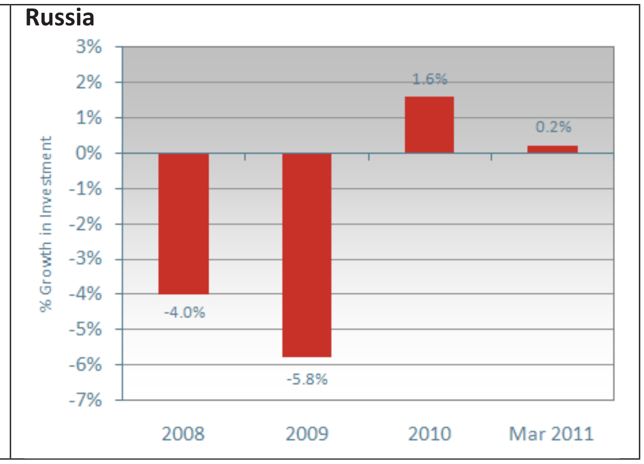
Source: Bloomberg

Growth of investment in BRIC Stocks

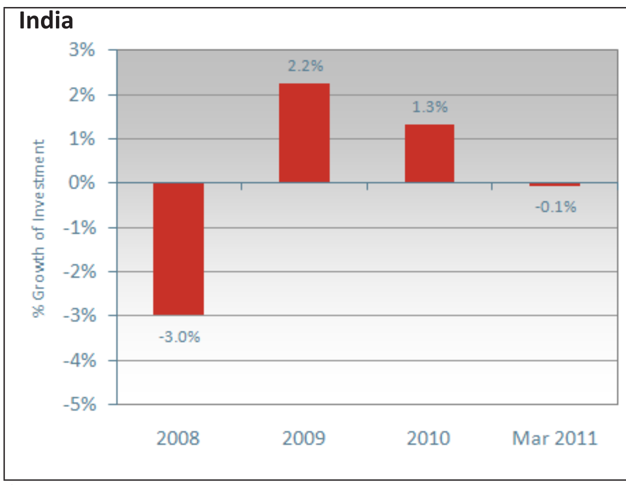


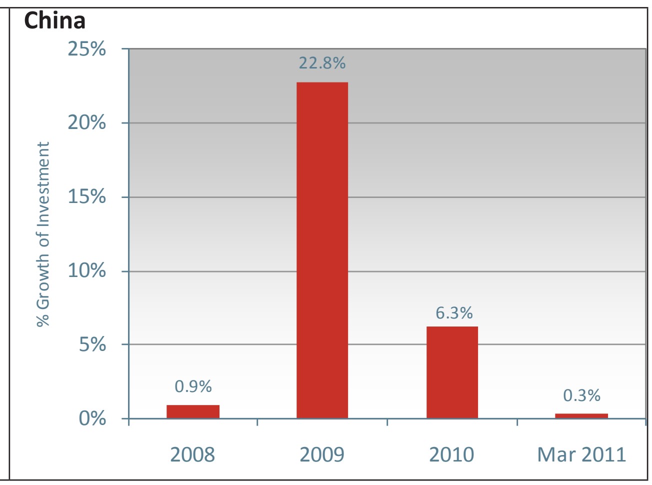
Source: Ipreo





Source: Ipreo





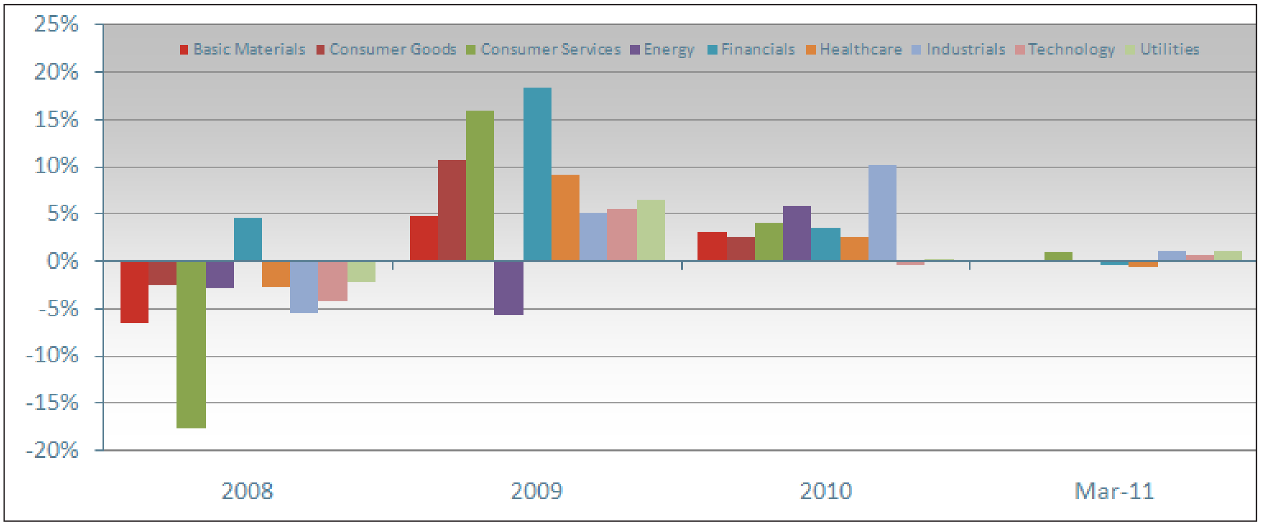
Source: Ipreo

After experiencing a torrid pace of growth in 2009 BRIC stocks flattened out. But money continued to pour in 2010. In February of this year, however, a BofA Merrill Lynch survey showed that only 5% percent of fund managers were overweight global emerging markets equities, down from 43% just a month ago, a massive decline. Ipreo data shows that Q1 2011 saw a decline in the rate of growth of investments in BRIC stocks except in India where we saw a marginal net outflow. At the same time developed market equity funds saw the best start to a year since Q1 2006.

The knock-on effects from political unrest in North Africa and the Middle East were minimal, but the resultant higher oil prices were pointed to as one of the reasons for the slowdown in investment rates. More prominently though, high inflation, led by surging global food prices, ignited fears that central banks in developing countries will continue to raise interest rates which will hurt economic growth.

Apart from inflation fears, India's net outflow is also the result of investors pulling back amid the fallout from the 2G licensing scam and the high-profile battle over taxes between Vodafone and the Indian government. The latter in particular has revived concerns that Indian policy makers attitude towards foreign investment is at best ambivalent. In Brazil the central bank started to increase interest rates as the economy started to grow at historically high rates of between 7% and 9%. Additionally, the significant stock overhang by a capital increase of Petrobras in the range of $70 bln put pressure on the market. Investments in Russia continue to be buffeted by the volatile commodity markets against the background of political and regulatory risks that have kept valuations of Russian companies the lowest in the emerging markets world for a number of years now.

A look into the total money flows in BRIC countries by sector reveals that Q1 2011 has mostly seen sideways movement. Industrials and Utilities have registered increases of 1.1% and 1.2% respectively. All other sectors have seen movements below this in absolute terms.



Source: Ipreo

BRICs are solid

Despite the slowdown in Q1 2011 there are strong indications that the rest of the year and beyond are rosy for BRIC stocks. Most investors consider the tighter monetary policies as mature and understandable responses to surging inflation, though it clamps down on growth. Some others believe the decline reflects a natural correction after the large gains in 2009 and 2010 which briefly corresponded with positive U. economic data. Political stability is often an overriding concern in emerging markets and even in an open democracy like Brazil, the election of a new government was watched closely. Thus far the smooth transition of power and a continuation of the market friendly policies appear to have soothed concerns. The strong growth in exports and the burgeoning middle class continue to be compelling, with the latter factor making the country less dependent on the former. Lastly, the upcoming 2014 FIFA World Cup and the 2016 Olympics in Brazil are seen as catalysts for continued growth. The Indian story is by far the murkiest with the rest of the year difficult to predict but the long-term factors such as demographics are in its favor.

Of all the BRIC countries Russia is the one with the least compelling long-term story. The country is heavily dependent on commodities and corporate governance remains a concern. In addition, unlike Brazil, India and China, Russia faces a demographic challenge: the average Russian is in his or her early 40s, much older than many other emerging markets, and thus less inclined to spend. But in the short-term surging commodity prices, coupled with the valuations that are among the cheapest in emerging markets, will keep investors interested.

Indeed, surveys in April and May are showing money coming in stronger into emerging markets. As euro zone economies come under the strain of a possible sovereign default by Greece and the US economy crawls under the weight of the collapsed housing market and high unemployment, business in BRIC countries will likely continue on as usual.

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BetterIR - Firm Snapshot

Targeted Firm: Kornitzer Capital Management, Inc. ($6.0Bn EAUM)

Targeting Profile:
Kornitzer Capital Management (KCM) was founded in 1989 by John C. Kornitzer, and is headquartered in Shawnee Mission, Kansas. In 1994, shortly after the firm's inception, KCM founded two separate companies to better meet the growing needs of its client base. The first company created was the Great Plains Trust Company, whose purpose was to administer and custody retirement plans. The second company formed was the mutual fund company; Buffalo Funds, which was established to handle IRA's and smaller investment accounts. Nevertheless, KCM serves as an investment advisor to both companies. Although the majority of the funds KCM manages are Growth oriented, the firm is divided into two separate teams; a Growth team, and a Value team. The Growth team utilizes a top-down perspective that attempts to identify long term secular trends. Upon this initial screening, the firm uses in depth fundamental research to recognize those companies that are expected to benefit from such trends. On the contrary, the Value side utilizes a bottom-up approach which focuses on a full range of market capitalizations. The core of the Value portfolio consists of financially secure companies trading below their estimated intrinsic value, while the remaining holdings consist of under followed and out of favor companies.

The abundance of KCM's assets are designated to equity holdings, given that fixed income makes up only 3% of the portfolio. Furthermore, 95% of the portfolio is nominated to US domiciled securities, and minimal buys were present in other countries QoQ. Despite little regional allocation, the firm is well diversified across industries, and tends to lean towards small and mid cap securities. Nonetheless, the largest portions of the portfolio are split between Technology (27%), Consumer Services (19%), and Healthcare (16%) sectors.

How to Approach:
KCM tends to look for financially stable institutions domiciled in the United States. Furthermore, the KCM portfolio saw large buys in Pharmaceuticals (+$28mm), Consumer Services (+$27mm), Software (+$26mm), and Aerospace & Defense (+$26mm), thus these industries may be of greater interest to the firm currently. Moreover, the firm allocates 80% of its portfolio to Small and Mid cap companies. KCM also tends to invest in companies with long term growth potential as evident from its average equity holding period of 4 years.

How not to Approach:
Firms located outside of the United States will have a tough time garnering significant interest from KCM. Even when KCM takes a stake in a foreign security, it is usually very minor. For instance 17% of the 458 securities held are designated to Asia, however these 76 securities make up only 0.7% of the overall portfolio. Additionally, Technology (despite having the largest portfolio weighting) saw a 2.3% net decrease QoQ, however much of this selling can be attributed to the Communications Equipment (-$37mm) and Semiconductor (-$33mm) sectors. Also, companies with less than $250mm in market cap will have a tougher time collecting interest, as KCM only designates 0.26% of the portfolio to Micro cap companies, and has recently been selling off many of these securities.

Largest Funds Managed:
- Buffalo Small Cap Fund; $2,939mm (EAUM)
- Buffalo Mid Cap Fund; $677mm (EAUM)
- Buffalo Science & Technology Fund; $287mm (EAUM)
- Buffalo Growth Fund; $133mm (EAUM)

Portfolio Fundamentals:
- Forward P/E: 19.6x
- 5 Yr Proj. Growth Rate: 15.4%
- Dividend Yield: 1.0%
- Price/Book: 4.0x

Average Equity Holding Period: 4 Years

BetterIR - Fund Snapshot

Targeted Fund: American Funds New Economy Fund ($6.7Bn EAUM)

Portfolio Manager:
- Gordon Crawford

Targeting Profile:
The $6.7Bn American Funds New Economy Fund is one of thirty-two funds within the American Funds family platform managed by the Capital Group. The fund utilizes a multiple portfolio counselor system, a staple of the Capital Group, in which the portfolio is segmented between several managers each independently managing a portion of the fund's total assets. Furthermore, a separate portion of the portfolio is allocated to analysts who invest in their area of research coverage which is typically structured by market cap with a particular focus on a specific industry. The fund practices a core fundamental research approach often ignoring short-term volatility with the intention of long buy-and-hold investment horizons. Moreover, it is characteristic for the analysts to meet with corporate management prior to making investment decisions as interaction is imperative in the fund's formation of an investment thesis.

Aligned with the fund's name, the fund seeks companies that utilize innovation and new technology that capitalizes on a transitioning world economy. Accordingly the fund has historically been heavily weighted towards the Technology space currently allocating 28% of its holdings in the sector. However, over the past year the fund has been diversifying away from a predominantly Technology fund, rotating Consumer Services (21%) and Healthcare space (14%). Of its Consumer Services allocation, passenger airline companies Ryanair ($150mm) and AirAsia ($116mm) as well as satellite television provider DirectTV ($112mm) constitute the fund's top holdings within the space. Furthermore, notable stakes in the Healthcare industry include bio-pharma companies Biogen Idec ($116mm) and Alere ($98mm).

In addition to diversifying on a sector basis, the fund has also shifted focus to geographic diversification currently allocating 37% outside of North America and currently holding securities spanning 26 countries. Outside of North America, Asia and Europe account for the largest regional allocations accounting for 16% and 15% of the fund's assets, respectively. Within Asia and Europe, the fund exhibits positive sentiment within the UK and China with notable positions in UK-domiciled Accenture ($60mm) and China-based Industrial & Commercial Bank of China ($87mm). Moreover, the fund maintains a low DR propensity within its international allocation, often seeking home country common shares in lieu of DR issuers.

How to Approach:
Despite diversifying away from primarily a tech oriented fund, tech companies still constitute 28% of the portfolio. Accordingly, tech companies with a global presence should be within management's periphery. Similarly, the fund has been rotating into the consumer services and healthcare space recently, amplifying the appeal of companies within such sectors. Furthermore, the fund has recently initiated large positions in international financials specifically throughout the European and Asian regions. A common theme among the financials is their exposure to emerging economies. Accordingly, financials that are capitalizing on emerging economy growth fit well within the fund.

How not to Approach:
As a result of the fund's focus on innovative companies, companies that operate outside of the fast growing modern sectors should experience difficulty in penetrating management's investment decisions. Historically, the industrials, energy and consumer goods sectors have largely been underweight in the fund. Furthermore, companies with regionally concentrated revenue streams may be at a disadvantage in garnering the attention of management. Moreover, international securities with DR's as their primary issuance should seek investment elsewhere.

Portfolio Fundamentals:
- Forward Price/Earnings: 17.0x
- 5 Yr Projected Revenue Growth: 14.9%
- Dividend Yield: 1.4%
- Price/Sales: 3.2x

Average Equity Holding Period: 1.3 Years

Metro Area Targeting Focus - Denver, Colorado

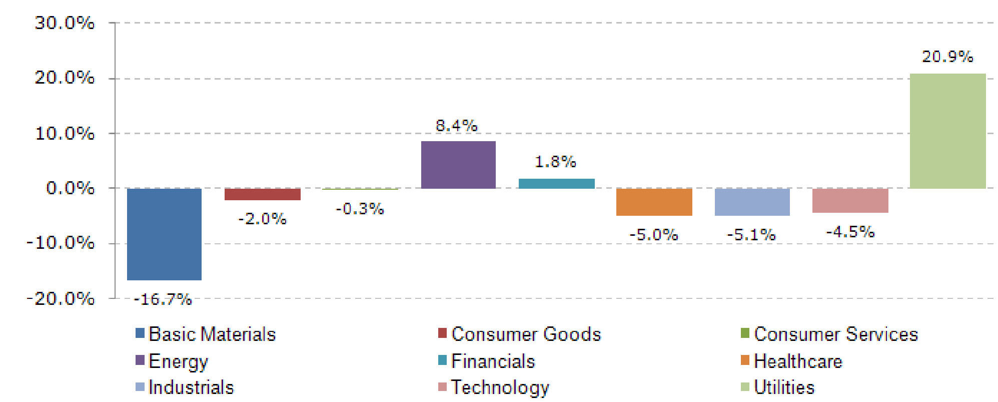
Money Center Statistics

Reported Equity Assets ($B):	$163.0
Number of Institutions:	36
World Rank:	24/174
Top Sector Weighting:	Tech
Financials Weighting:	20.3%
Top Region Weighting:	N. America
N. America Weighting:	77.4%
Total Net Buying ($B):	$26.5
Total Net Selling ($B):	-$29.8
Total Net Activity ($B):	$-3.3

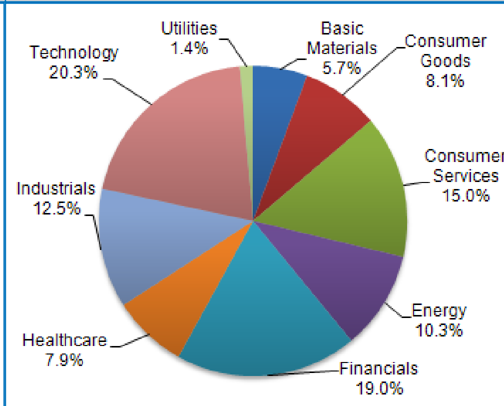
Summary Notes:

Based on reported equity assets under management, Denver Colorado is ranked 24th in the world and 12th in the United States with $163Bn. The metro area also ranks 16th in the United States for total number of institutions with 36; however, the majority of the metro's assets are concentrated in the top three investors. Over the past decade, Denver's top weighted industry has been Technology, currently accounting for 20% of the metro's collective portfolio. This is largely due to **Janus Capital Management's** heavy involvment since the tech bubble in 2001. However, although the firm still owns far more Tech companies than any other investor in the metro ($18Bn), Janus has slowly been reducing exposure to the space, selling over $2.8Bn during the last quarter. The Financial space attracts the 2nd most investment from Denver investors, accounting for 19% of the metro's portfolio. Additionally, Financials is one of three sectors that saw positive net activity, according to the most recent data. Regarding regional investment, Denver's collective portfolio is over 75% invested within the United States; however, the most recent data shows the Denver investors sold roughly $2.5Bn of US issuers during last quarter, led by the two largest investors Janus and **Marsico Capital Management** (-$3.1Bn combined). According to the most recent data, **Cambiar Investors** and **Denver Investment Advisors** led the way in buying US companies, adding over a combined $870mm.

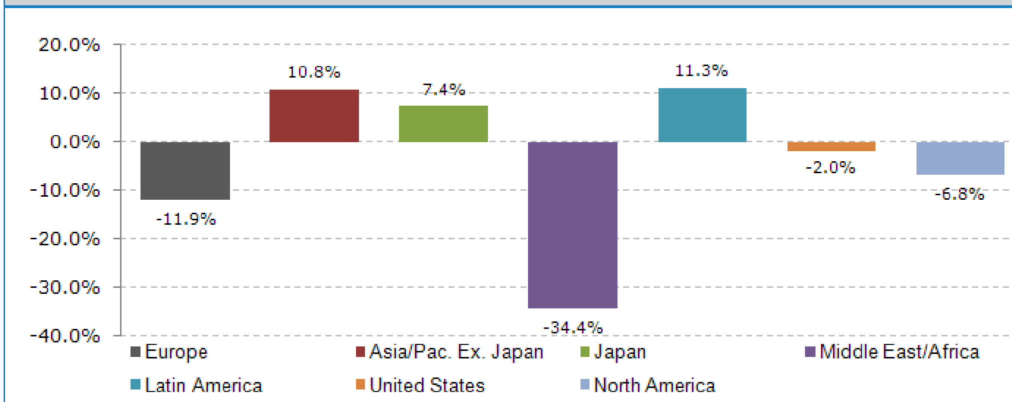
Most Recent Sector Net Activity (% Change)



Sector Allocation



Most Recent Regional Net Activity (% Change)



Geographic Allocation